



# INDIANA BOND BANK FUEL BUDGETING PROGRAM

March 6, 2012  
Purdue Road School

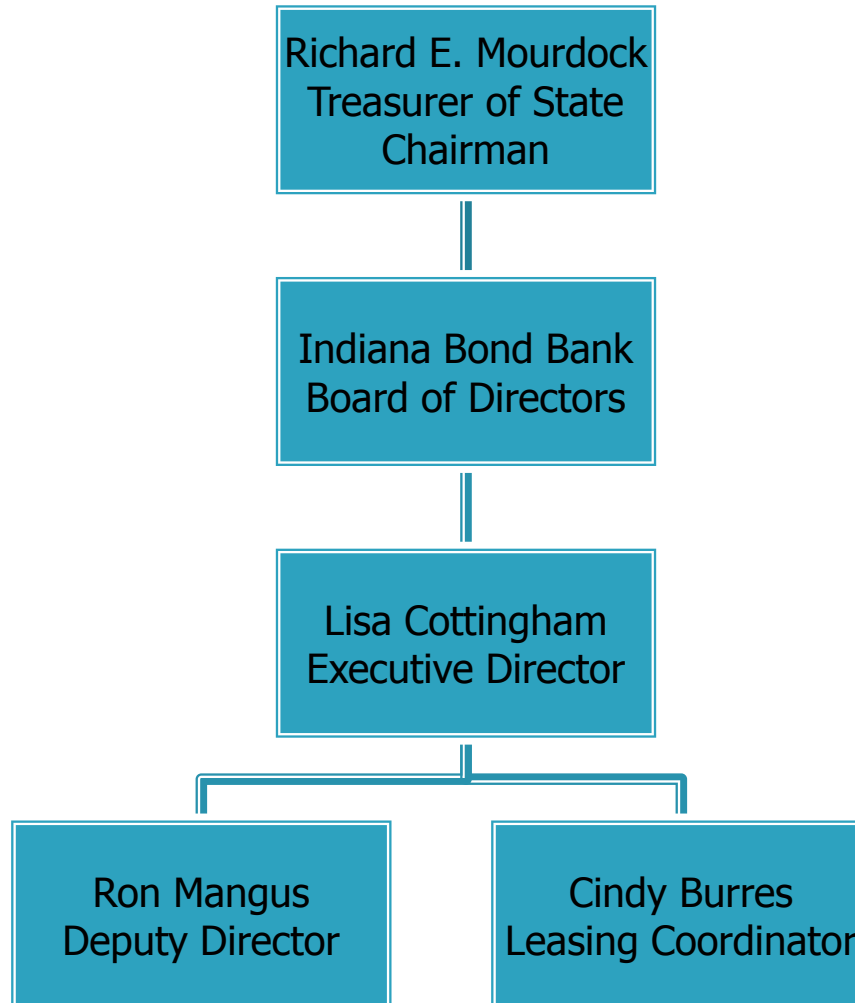


# Mission of the Bond Bank

The primary mission of the Indiana Bond Bank is to assist local government or qualified entities with the process of issuing debt.



# Organization Structure





# Bond Bank Structure

- ▶ Created by the Indiana General Assembly in 1984
- ▶ Self-supporting quasi-governmental entity
- ▶ A seven member board governs the Bond Bank
- ▶ The State Treasurer statutorily serves as Chairman of the Board
- ▶ The director of the Indiana Finance Authority statutorily serves as a board member
- ▶ The Governor appoints five board members



# Maverick Energy Market Perspective

- ▶ Current Market Balance of 2012 (indications on March 1)
  - ▶ HO (Diesel) \$3.23 NYMEX
  - ▶ RBOB (Gasoline) \$3.07 NYMEX
- ▶ Risks for 2012
  - ▶ Iran blocks the Straits of Hormuz (bullish as it cripple Middle East supply)
  - ▶ Iran develops nuclear bomb (bullish, as it cripples Middle East supply)



# Maverick Energy Market Perspective (Con't)

- ▶ Risks for 2012
  - ▶ The Euro-zone begins to break apart (bearish, as it likely strengthens U. S. Dollar)
  - ▶ OECD countries enter another deep recession (bearish, as it would hinder demand)
  - ▶ Strong demand from emerging markets like China (bullish, as it increases demand)



# Maverick Energy Market Perspective

Outlook – flat to upward prices with continual  
price risks ahead



# Fuel Budgeting Program

- ▶ Budgeting tool to guard against rising fuel prices (budget insurance)
- ▶ Allows smaller entities to pool their fuel budgeting needs to create an effective hedge size (42,000 gallons)
- ▶ Share program costs for cost efficiency
- ▶ Experience of IBB Staff/Professionals
- ▶ IBB Collateral





# How the Fuel Budgeting Program Works

- ▶ QE continues to purchase fuel as normal
  - ▶ Cannot be fixed price contract
- ▶ QE completes short application
- ▶ QE adopts legal paperwork
- ▶ QE determines how much to hedge
  - ▶ Maximum of 80% annual consumption



# How the Fuel Budgeting Program Works

- ▶ Collar
  - ▶ Floor and Ceiling
  - ▶ NYMEX (New York Mercantile Exchange) fuel pricing
- ▶ Administrative Fee
  - ▶ 2011 program fee - \$0.04 per gallon
  - ▶ 2012 program fee - \$0.0385 per gallon
- ▶ Applications will be available in the Fall for the 2013 Program



# 2012 Fuel Budgeting Program

- ▶ 19 Participants
  - ▶ 14 School Corporations
  - ▶ 4 Cities
  - ▶ 1 County
- ▶ \$.0385 per gallon administrative fee
- ▶ Gasoline (RBOB) Collar \$2.48 - \$2.90
- ▶ Diesel (HO) Collar \$2.708 - \$3.20



# Gasoline Example

Assumed Floor (1):	\$2.71	\$2.71	\$2.71
Assumed Cap:	\$3.20	\$3.20	\$3.20
Assumed NYMEX Price/gal	\$2.65	\$3.15	\$3.38

	<i>Example 1</i>	<i>Example 2</i>	<i>Example 3</i>
	<i>Price As Compared to Hedge</i>		
	<i>Lower</i>	<i>Within</i>	<i>Higher</i>
Monthly Consumption--gallons (As in entity application)	3,500	3,500	3,500
Percentage Hedged (Determined by entity; max 80%)	65.00%	65.00%	65.00%
Monthly Hedge--Gallons	2,275	2,275	2,275
NYMEX Daily Average Price	\$2.65	\$3.15	\$3.38
NYMEX vs. Floor/Cap	(\$0.06)	\$ -	\$0.18
Monthly Hedge--Gallons	2,275	2,275	2,275
Distribution (Payment)	\$ (136.50)	-	\$ 409.50
Monthly Admin Fee (2) (Assumed \$.0385/gallon hedged)	\$ (88.00)	\$ (88.00)	\$ (88.00)
Total Participant Cash Flow	\$ (224.50)	\$ (88.00)	\$ 321.50

(1) Rounded to 2.71 from \$2.708

(2) Rounded to the nearest dollar



# Diesel Fuel Example

Assumed Floor (1):	\$2.71	\$2.71	\$2.71
Assumed Cap:	\$3.20	\$3.20	\$3.20
Assumed NYMEX Price/gal	\$2.65	\$3.15	\$3.38

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# 2012 Diesel Results

## Actual 2012 Program Results -- Heating Oil (Diesel)

Month	Floor	Cap	NYMEX Market Dly Avg	Per Gallon Net (Pay)/Rec	Total Monthly Results*
Jan	\$ 2.708	\$ 3.2000	\$ 3.046	\$ -	\$ (7,089.00)
Feb	\$ 2.708	\$ 3.2000	\$ 3.194	\$ -	\$ (6,768.00)
March	\$ 2.708	\$ 3.2000			
April	\$ 2.708	\$ 3.2000			
May	\$ 2.708	\$ 3.2000			
June	\$ 2.708	\$ 3.2000			
July	\$ 2.708	\$ 3.2000			
Aug	\$ 2.708	\$ 3.2000			
Sep	\$ 2.708	\$ 3.2000			
Oct	\$ 2.708	\$ 3.2000			
Nov	\$ 2.708	\$ 3.2000			
Dec	\$ 2.708	\$ 3.2000			
* Summary of Payments to/(from) 19 participants					\$ (13,857.00)

Note: Monthly results include a \$0.0385 per gallon administrative fee.



# 2012 Gasoline Results

## Actual 2012 Program Results -- RBOB (Gasoline)

Month	Floor	Cap	NYMEX Market Dly Avg	Per Gallon Net (Pay)/Rec	Total Monthly Results*
Jan	\$ 2.480	\$ 2.900	\$ 2.796	\$ -	\$ (2,446.00)
Feb	\$ 2.480	\$ 2.900	\$ 3.009	\$ 0.109	4,382.10
March	\$ 2.480	\$ 2.900			
April	\$ 2.480	\$ 2.900			
May	\$ 2.480	\$ 2.900			
June	\$ 2.480	\$ 2.900			
July	\$ 2.480	\$ 2.900			
Aug	\$ 2.480	\$ 2.900			
Sep	\$ 2.480	\$ 2.900			
Oct	\$ 2.480	\$ 2.900			
Nov	\$ 2.480	\$ 2.900			
Dec	\$ 2.480	\$ 2.900			
** Summary of Payments to/(from) 13 participants					\$ 1,936.10

Note: Monthly results include a \$0.0385 per gallon administrative fee.



# 2011 Diesel Results

Actual 2011 Program Results -- Heating Oil (Diesel)							
Month	Floor	Cap	NYMEX Market Dly Avg	Per Gallon Net (Pay)/Rec	Total Monthly Results*		
Jan	\$ 2.44	\$ 2.75	\$ 2.609	\$ -	\$	(3,630.00)	
Feb	\$ 2.44	\$ 2.75	\$ 2.777	\$ 0.027		(1,384.40)	
March	\$ 2.44	\$ 2.75	\$ 3.046	\$ 0.296		24,988.66	
April	\$ 2.44	\$ 2.75	\$ 3.207	\$ 0.457		40,904.11	
May	\$ 2.44	\$ 2.75	\$ 2.964	\$ 0.214		18,869.01	
June	\$ 2.44	\$ 2.75	\$ 2.977	\$ 0.227		7,818.96	
July	\$ 2.44	\$ 2.75	\$ 3.078	\$ 0.328		13,435.06	
Aug	\$ 2.44	\$ 2.75	\$ 2.951	\$ 0.201		12,171.07	
Sep	\$ 2.44	\$ 2.75	\$ 2.934	\$ 0.184		13,224.41	
Oct	\$ 2.44	\$ 2.75	\$ 2.959	\$ 0.209		16,556.36	
Nov	\$ 2.44	\$ 2.75	\$ 3.062	\$ 0.312		25,262.53	
Dec	\$ 2.44	\$ 2.75	\$ 2.908	\$ 0.158		10,778.09	
* Summary of Payments to/(from) 10 participants						\$ 178,993.86	

Note: Monthly results include a \$0.04 per gallon administrative fee.





# 2011 Gasoline Results

## Actual 2011 Program Results -- RBOB (Gasoline)

Month	Floor	Cap	NYMEX Market Dly Avg	Per Gallon Net (Pay)/Rec	Total Monthly Results*
Jan	\$ 2.30	\$ 2.61	\$ 2.442	\$ -	\$ (2,041.00)
Feb	\$ 2.30	\$ 2.61	\$ 2.552	\$ -	(1,990.00)
March	\$ 2.30	\$ 2.61	\$ 2.997	\$ 0.387	17,745.02
April	\$ 2.30	\$ 2.61	\$ 3.267	\$ 0.657	30,567.97
May	\$ 2.30	\$ 2.61	\$ 3.096	\$ 0.486	22,213.77
June	\$ 2.30	\$ 2.61	\$ 2.951	\$ 0.341	15,553.37
July	\$ 2.30	\$ 2.61	\$ 3.096	\$ 0.486	22,674.20
Aug	\$ 2.30	\$ 2.61	\$ 2.870	\$ 0.260	11,736.54
Sep	\$ 2.30	\$ 2.61	\$ 2.725	\$ 0.115	3,781.79
Oct	\$ 2.30	\$ 2.61	\$ 2.681	\$ 0.069	1,635.45
Nov	\$ 2.30	\$ 2.61	\$ 2.583	\$ -	(1,994.00)
Dec	\$ 2.30	\$ 2.61	\$ 2.598	\$ -	(2,077.00)
** Summary of Payments to/(from) 7 participants					\$ 117,806.11

Note: Monthly results include a \$0.04 per gallon administrative fee.



# 2010 Diesel Results

## Actual 2010 Program Results -- Heating Oil (Diesel)

Month	Floor	Cap	NYMEX Market Dly Avg		Per Gallon Net (Pay)/Rec		Total Monthly Results*
April	\$ 2.03	\$ 2.42	\$	2.23	\$	-	\$ (3,952.00)
May	\$ 2.03	\$ 2.42	\$	2.05	\$	-	(3,950.00)
June	\$ 2.03	\$ 2.42	\$	2.05	\$	-	(2,688.00)
July	\$ 2.03	\$ 2.42	\$	2.01	\$	(0.02)	(3,930.04)
Aug	\$ 2.03	\$ 2.42	\$	2.05	\$	-	(3,685.00)
Sep	\$ 2.03	\$ 2.42	\$	2.11	\$	-	(4,022.00)
Oct	\$ 2.03	\$ 2.42	\$	2.26	\$	-	(4,053.00)
Nov	\$ 2.03	\$ 2.42	\$	2.33	\$	-	(3,868.00)
Dec	\$ 2.03	\$ 2.42	\$	2.49	\$	0.07	2,758.39
* Summary of Payments to/(from) 10 participants							\$ (27,389.65)

Note: Monthly results include a \$0.04 per gallon administrative fee.



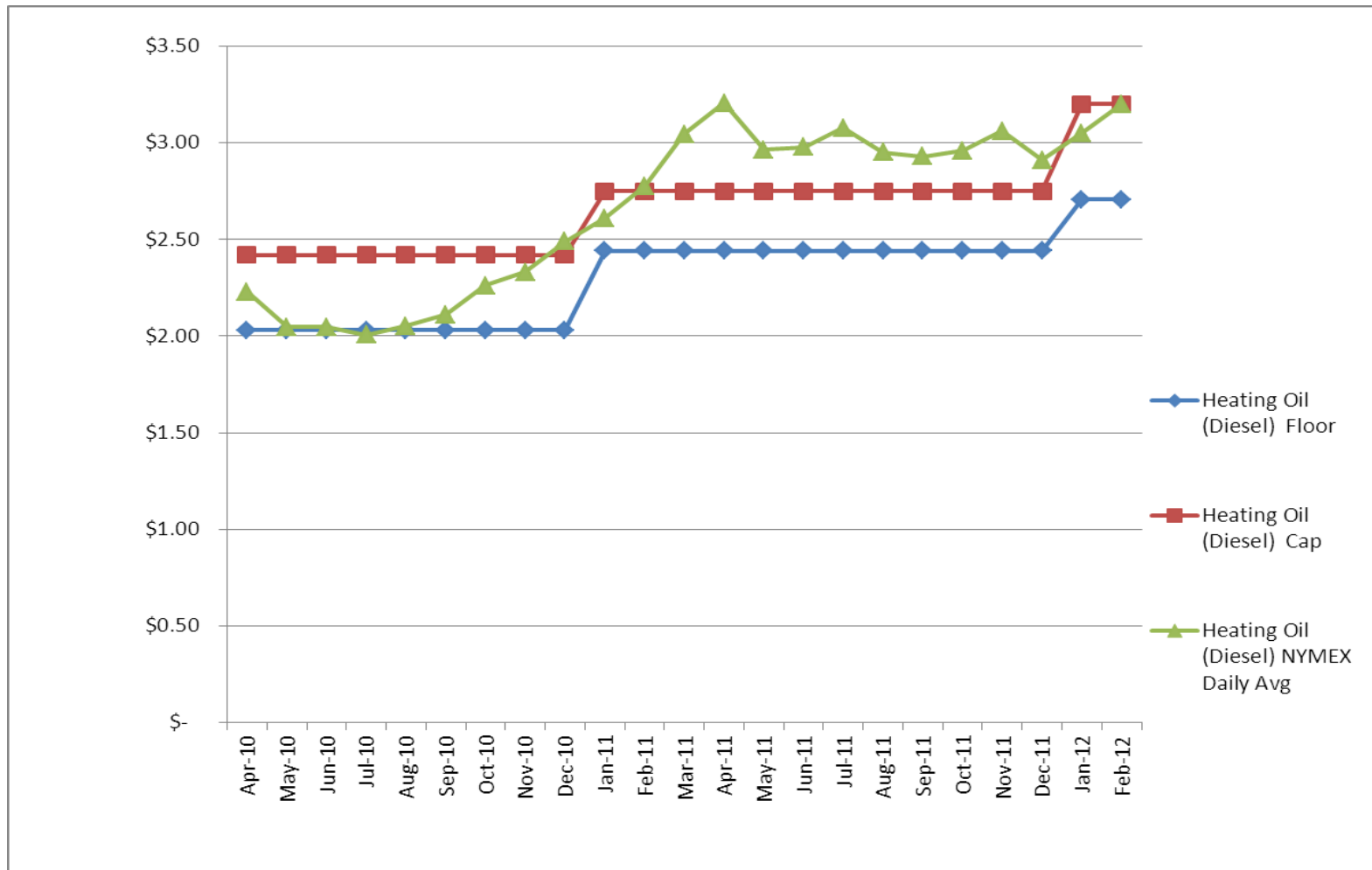
# 2010 Gasoline Results

Actual 2010 Program Results -- RBOB (Gasoline)									
Month	Floor		Cap		NYMEX Market Dly Avg		Per Gallon Net (Pay)/Rec		Total Monthly Results**
April	\$	2.00	\$	2.41	\$	2.32	\$	-	\$ (4,115.00)
May	\$	2.00	\$	2.41	\$	2.11	\$	-	(4,040.00)
June	\$	2.00	\$	2.41	\$	2.08	\$	-	(4,033.00)
July	\$	2.00	\$	2.41	\$	2.06	\$	-	(4,072.00)
Aug	\$	2.00	\$	2.41	\$	1.99	\$	(0.01)	(4,533.79)
Sep	\$	2.00	\$	2.41	\$	1.95	\$	(0.05)	(9,555.88)
Oct	\$	2.00	\$	2.41	\$	2.11	\$	-	(4,701.00)
Nov	\$	2.00	\$	2.41	\$	2.19	\$	-	(3,939.00)
Dec	\$	2.00	\$	2.41	\$	2.36	\$	-	(4,116.00)
** Summary of Payments to/(from) 9 participants									\$ (43,105.67)

Note: Monthly results include a \$0.04 per gallon administrative fee.

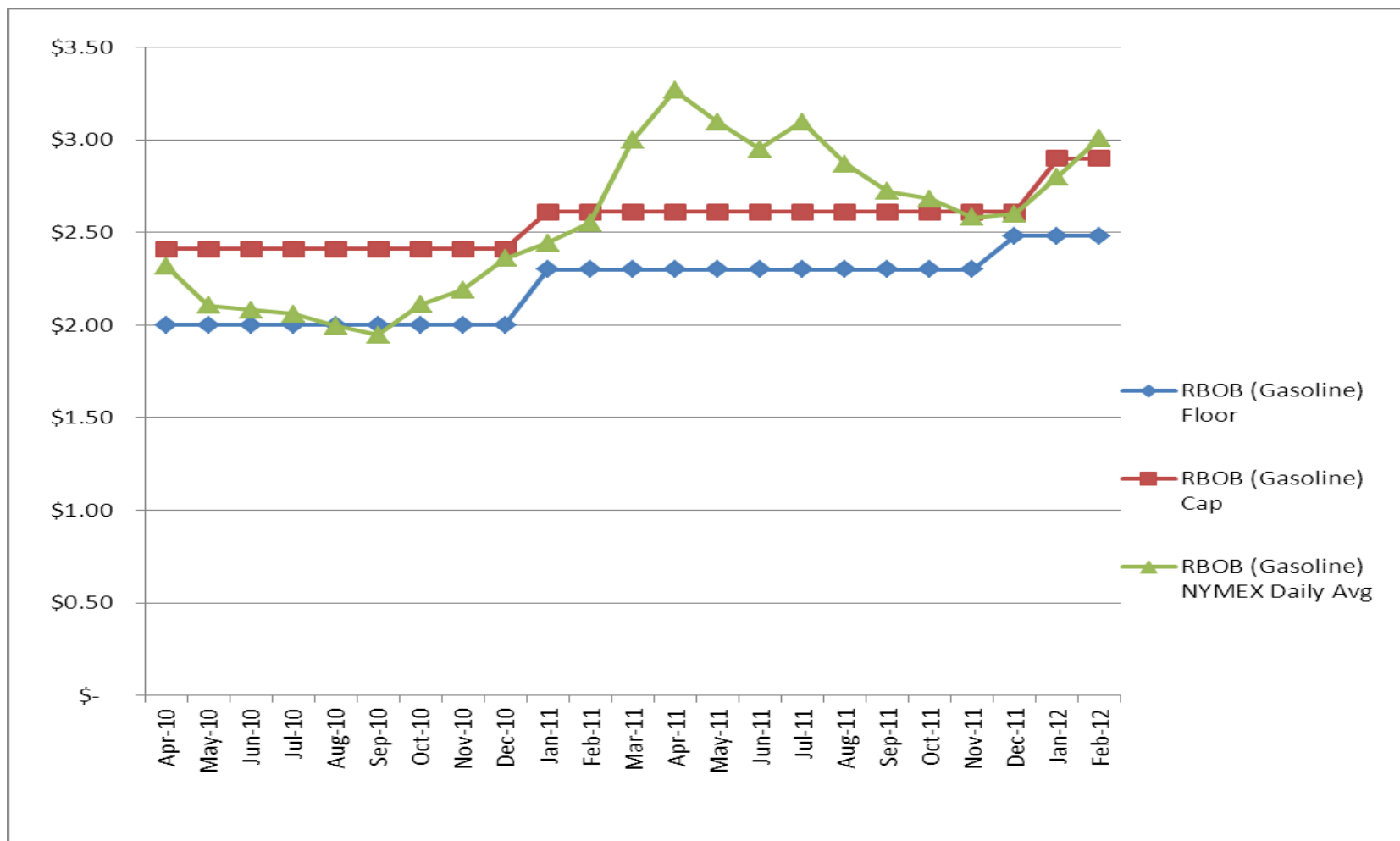


# Diesel Cap and Collar with NYMEX Average





# Gasoline Cap and Collar with NYMEX Average





# Frequently Asked Questions (FAQs)

- ▶ Q. *Where do I purchase my fuel if I participate in the Bond Bank Fuel Budgeting Program?*
- ▶ A. Entities purchase and pay for fuel from any vendor.
  
- ▶ Q. *Can I participate in the Fuel Budgeting Program if I fixed my price with my vendor?*
- ▶ A. If you fix 100% of your fuel price for the entire year, you cannot participate in the program. However, you can participate if you bid and set the price each month, or have a portion of your volume that is not fixed with your vendor (avoid “double hedging”).



# FAQs Continued

- ▶ *Q. What is NYMEX?*
- ▶ A. NYMEX stands for New York Mercantile Exchange. The NYMEX daily average will be different from the pump price or the amount you pay your vendor since it does not include delivery, taxes and other costs.
  
- ▶ *Q. How does settlement work at the end of each month?*
- ▶ A. The Bond Bank will settle at the end of each month based upon the NYMEX daily average in relation to the collar using the amount that you hedged. The Bond Bank will notify you of the results at the end of each month. You will receive an invoice or a wire.



# FAQs Continued

- ▶ *Q. Do I need to send the Bond Bank my invoices for my fuel purchases?*
- ▶ A. No, the Bond Bank does not need your actual fuel purchase information.
  
- ▶ *Q. How is the collar and fee established?*
- ▶ A. The 2012 collar was established in December of 2011 based upon market conditions. The fee per gallon hedged is set to cover Bond Bank program costs.





# FAQs Continued

- ▶ *How does an entity participate in the Program?*
- ▶ A. Applications for 2013 will be available in the fall of 2012. Call the Bond Bank or visit our website at [www.in.gov/bond](http://www.in.gov/bond) for an application



# Questions

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